

## NEWS RELEASE

### FOR RELEASE

Hunzelman, Putzier & Co., PLC today released an audit report on the City of Hartley, Iowa.

Hunzelman, Putzier & Co., PLC reported that the City of Hartley's receipts totaled \$5,811,979 for the year ended June 30, 2005, a seventeen percent increase from 2004. The receipts included \$258,995 in property tax, \$225,368 in increment financing collections, \$104,751 in local option sales tax, \$883,783 from operating grants, contributions, and restricted interest, \$33,675 from capital grants, contributions, and restricted interest, \$2,846,625 from charges for services, \$77,330 in interest on investments, \$14,771 in special assessments, \$4,635 in sale of assets, \$1,347,857 in note proceeds, and \$14,189 in other general receipts.

Disbursements for the year totaled \$5,349,577, a three percent increase from the prior year, and included \$239,950 for public safety, \$149,383 for culture and recreation, and \$128,081 for public works. Also, disbursements for business type activities totaled \$4,634,367.

This report contains recommendations to the City Council and their indicated responses to the recommendations.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

CITY OF HARTLEY

INDEPENDENT AUDITOR'S REPORTS

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

JUNE 30, 2005

CITY OF HARTLEY  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2005

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CITY OF HARTLEY

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Rodney Ahrenstorff	Mayor	January, 2006
Blayne Johnson	Council Member	January, 2006
Bradley Meendering	Council Member	January, 2006
Clayton Pyle	Council Member	January, 2006
Dan Mohni	Council Member	January, 2008
Pam Sease	Council Member	January, 2008
Paula Kay Cmelik	City Clerk/Administrator	Indefinite
Mike Thole	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.  
JEFFORY B. STARK, C.P.A.  
KEITH C. GERMANN, C.P.A.  
RICHARD R. MOORE, C.P.A.  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
Hartley, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Hartley, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Hartley's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Hartley, Iowa, as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2005 on our consideration of City of Hartley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 20 through 21 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

City of Hartley, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Hartley's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hungelman, Putzier & Co.*

August 31, 2005

CITY OF HARTLEY  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit A

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental Activities							
Public safety	\$ 239,950	\$ 57,282	\$ 31,948	\$ -	\$ (150,720)	\$ -	\$ (150,720)
Public works	128,081	11,246	144,092	-	27,257	-	27,257
Culture and recreation	149,383	24,548	309,353	-	184,518	-	184,518
Community and economic development	64,821	-	-	33,675	(31,146)	-	(31,146)
General government	73,675	-	-	-	(73,675)	-	(73,675)
Debt service	59,300	-	-	-	(59,300)	-	(59,300)
Total governmental activities	715,210	93,076	485,393	33,675	(103,066)	-	(103,066)
Business type activities							
Water service	205,693	215,777	-	-	-	10,084	10,084
Sewer service	2,059,244	188,790	398,390	-	-	(1,472,064)	(1,472,064)
Electric service	973,839	956,771	-	-	-	(17,068)	(17,068)
Gas service	1,127,098	1,114,685	-	-	-	(12,413)	(12,413)
Solid waste	103,365	111,906	-	-	-	8,541	8,541
Consumer deposit	13,730	23,040	-	-	-	9,310	9,310
Cable	151,398	142,580	-	-	-	(8,818)	(8,818)
Total business type activities	4,634,367	2,753,549	398,390	-	-	(1,482,428)	(1,482,428)
Total	\$ 5,349,577	\$ 2,846,625	\$ 883,783	\$ 33,675	(103,066)	(1,482,428)	(1,585,494)
General Receipts:							
Property tax levied for:							
General purposes					258,995	-	258,995
Tax increment financing					225,368	-	225,368
Local option sales tax					104,751	-	104,751
Unrestricted interest on investments					56,686	20,644	77,330
Bank franchise tax					2,160	-	2,160
Special assessments					14,771	-	14,771
Sale of assets					4,635	-	4,635
State revolving loan funds					-	1,347,857	1,347,857
Miscellaneous					12,029	-	12,029
Transfers					(146,538)	146,538	-
Total general receipts and transfers					532,857	1,515,039	2,047,896

(Continued)



CITY OF HARTLEY  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit A  
(Continued)

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest		Business Type Activities	Total
	Disbursements	Charges for Service		Governmental Activities		
Change in cash basis net assets				\$ 429,791	\$ 32,611	\$ 462,402
Cash basis net assets beginning of year				<u>653,535</u>	<u>2,491,052</u>	<u>3,144,587</u>
Cash basis net assets end of year				<u>\$ 1,083,326</u>	<u>\$ 2,523,663</u>	<u>\$ 3,606,989</u>
Cash Basis Net Assets						
Restricted:						
Streets				\$ 162,725	\$ -	\$ 162,725
Tax increment financing projects				71,856	-	71,856
Debt service				63,947	799,784	863,731
Other purposes				150,621	-	150,621
Unrestricted				<u>634,177</u>	<u>1,723,879</u>	<u>2,358,056</u>
Total cash basis net assets				<u>\$ 1,083,326</u>	<u>\$ 2,523,663</u>	<u>\$ 3,606,989</u>

See notes to financial statements.

CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit B

		<u>Special Revenue</u>		Other	
		Tax	Library	Non-major	
	<u>General</u>	<u>Increment</u>	<u>Expendable</u>	<u>Governmental</u>	<u>Total</u>
		<u>Financing</u>	<u>Trust</u>	<u>Funds</u>	
Receipts:					
Property tax	\$174,205	\$ -	\$ -	\$ 84,790	\$ 258,995
Tax increment financing collections	-	225,368	-	-	225,368
Other city tax	-	-	-	104,751	104,751
License and permits	1,722	-	-	-	1,722
Use of money and property	70,569	-	-	-	70,569
Intergovernmental	45,020	-	-	177,767	222,787
Charges for service	59,127	-	-	-	59,127
Special assessments	3,688	-	-	11,083	14,771
Miscellaneous	27,209	-	300,885	720	328,814
Total receipts	<u>381,540</u>	<u>225,368</u>	<u>300,885</u>	<u>379,111</u>	<u>1,286,904</u>
Disbursements:					
Operating:					
Public safety	239,950	-	-	-	239,950
Public works	53,306	-	-	74,775	128,081
Culture and recreation	149,383	-	-	-	149,383
Community and economic development	538	-	-	64,283	64,821
General government	73,675	-	-	-	73,675
Debt service	-	-	-	59,300	59,300
Total disbursements	<u>516,852</u>	<u>-</u>	<u>-</u>	<u>198,358</u>	<u>715,210</u>
Excess (deficiency) of revenues over expenditures	<u>(135,312)</u>	<u>225,368</u>	<u>300,885</u>	<u>180,753</u>	<u>571,694</u>
Other financing sources (uses):					
Sale of capital assets	4,635	-	-	-	4,635
Operating transfers in	123,236	-	-	103,000	226,236
Operating transfers out	-	(190,000)	-	(182,774)	(372,774)
Total other financing sources (uses)	<u>127,871</u>	<u>(190,000)</u>	<u>-</u>	<u>(79,774)</u>	<u>(141,903)</u>
Net change in cash balances	(7,441)	35,368	300,885	100,979	429,791
Cash balances beginning of year	<u>339,679</u>	<u>36,488</u>	<u>1,054</u>	<u>276,314</u>	<u>653,535</u>
Cash balances end of year	<u>\$332,238</u>	<u>\$ 71,856</u>	<u>\$ 301,939</u>	<u>\$ 377,293</u>	<u>\$1,083,326</u>

(Continued)

CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit B  
(Continued)

	<u>Special Revenue</u>			Other	
		Road	Tax	Non-major	
	<u>General</u>	<u>Use</u>	<u>Increment</u>	<u>Governmental</u>	<u>Total</u>
			<u>Financing</u>	<u>Funds</u>	
Cash Basis Fund Balances					
Unreserved:					
General fund	\$332,238	\$ -	\$ -	\$ -	\$ 332,238
Special revenue funds	-	71,856	301,939	225,954	599,749
Debt service funds	-	-	-	63,947	63,947
Permanent fund	-	-	-	87,392	87,392
Total cash basis fund balances	<u>\$332,238</u>	<u>\$ 71,856</u>	<u>\$ 301,939</u>	<u>\$ 377,293</u>	<u>\$1,083,326</u>

See notes to financial statements.

CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Exhibit C

	Water	Sewer	Electric	Gas	Other Non-major Proprietary Funds	Total
Operating Receipts:						
Use of money and property	\$ -	\$ -	\$ 1,060	\$ -	\$ 2,369	\$ 3,429
Charges for service	214,114	188,745	951,925	1,114,105	131,471	2,600,360
Miscellaneous	1,663	45	3,786	580	143,686	149,760
Total operating receipts	215,777	188,790	956,771	1,114,685	277,526	2,753,549
Operating Disbursements:						
Business type activities	169,618	2,048,180	779,441	1,059,778	148,818	4,205,835
Excess (deficiency) of operating receipts over operating disbursements	46,159	(1,859,390)	177,330	54,907	128,708	(1,452,286)
Non-operating receipts (disbursements):						
Intergovernmental	-	398,390	-	-	-	398,390
Interest on investments	1,799	652	14,135	3,651	407	20,644
State revolving loan funds	-	1,347,857	-	-	-	1,347,857
Debt service	(36,075)	(11,064)	(194,398)	(67,320)	(119,675)	(428,532)
Total non-operating receipts (disbursements)	(34,276)	1,735,835	(180,263)	(63,669)	(119,268)	1,338,359
Excess (deficiency) of receipts over disbursements	11,883	(123,555)	(2,933)	(8,762)	9,440	(113,927)
Operating transfers in	50,000	125,000	-	-	-	175,000
Operating transfers out	-	-	(18,576)	(9,886)	-	(28,462)
	50,000	125,000	(18,576)	(9,886)	-	146,538
Net change in cash balances	61,883	1,445	(21,509)	(18,648)	9,440	32,611
Cash balances beginning of year	195,029	260,584	1,537,191	208,942	289,306	2,491,052
Cash balances end of year	\$ 256,912	\$ 262,029	\$ 1,515,682	\$ 190,294	\$ 298,746	\$2,523,663
Cash Basis Fund Balances						
Reserved for debt service	\$ 78,969	\$ -	\$ 475,204	\$ 105,879	\$ 139,732	\$ 799,784
Unreserved	177,943	262,029	1,040,478	84,415	159,014	1,723,879
Total cash basis fund balances	\$ 256,912	\$ 262,029	\$ 1,515,682	\$ 190,294	\$ 298,746	\$2,523,663

See notes to financial statements.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Hartley is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1888 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, general government services, and business type activities.

A. Reporting Entity

For financial reporting purposes, City of Hartley has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Joint Ventures - City of Hartley has a 54% interest in a joint venture with City of Sanborn to provide garbage collection service. The cities participate in the collection of garbage, which is under the general management of one representative of each City Council. The following information summarizes the activity of the joint venture through June 30, 2005:

Receipts:

Contributions from other governments:	
City of Hartley	\$ 54,000
City of Sanborn	46,000
Interest	134
	<u>100,134</u>

Disbursements:

Salaries	47,669
Benefits	21,459
Workers compensation insurance	6,804
Property insurance	5,353
Diesel fuel	7,182
Truck maintenance and repairs	7,819
Contract labor	851
Clothing allowance	411
Miscellaneous	431
	<u>97,979</u>

Net	2,155
Balance, beginning of year	<u>5,325</u>
Balance, end of year	<u>\$ 7,480</u>

City of Hartley has a 54% interest of the assets, property and equipment, equity, and net income.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Reporting Entity - (Continued)

City of Hartley also has a 31.7% interest in a joint venture with the Cities of Paullina, Primghar, and Sanborn to provide cable television, telephone, and internet services. The cities participate in providing services, which is under the general management of one representative of each City Council. The City's share of equity in this organization as of June 30, 2005 is \$180,840.

Jointly Governed Organizations - The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint representatives to the following boards and commissions: O'Brien County Emergency Management Commission, O'Brien County E911 Service Board, O'Brien County Assessor's Conference Board, and Northwest Iowa Area Solid Waste Agency. Payments made to Northwest Iowa Area Solid Waste Agency during the year ended June 30, 2005 were \$16,638.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Tax Increment Financing Fund is used to account for projects financed by tax increment financing.

The Library Expendable Trust Fund is used to account for contributions from citizens to be used for library projects.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Gas Fund accounts for the operation and maintenance of the City's gas system.

C. Measurement Focus and Basis of Accounting

City of Hartley maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2005 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

2. CASH AND POOLED INVESTMENTS - (Continued)

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 40.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

3. NOTES PAYABLE

Annual debt service requirements to maturity for revenue, general obligation, and special assessment notes are as follows:

Year Ending June 30,	Revenue Notes		Revenue Capital Loan Notes		General Obligation Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 144,000	\$ 63,694	\$ 180,000	\$ 137,682	\$30,000	\$13,860
2007	92,000	57,394	185,000	130,503	30,000	12,540
2008	93,000	54,454	195,000	122,707	35,000	11,190
2009	93,177	51,382	200,000	114,203	35,000	9,580
2010	80,000	48,240	210,000	105,230	35,000	7,935
2011-2015	438,000	196,672	1,210,000	365,281	125,000	12,845
2016-2020	445,000	109,817	795,000	72,380	-	-
2021-2025	400,000	39,780	-	-	-	-
Total	<u>\$1,785,177</u>	<u>\$621,433</u>	<u>\$2,975,000</u>	<u>\$1,047,986</u>	<u>\$290,000</u>	<u>\$67,950</u>

Year Ending June 30,	Special Assessment Notes		Total	
	Principal	Interest	Principal	Interest
2006	\$10,000	\$2,620	\$ 364,000	\$ 217,856
2007	10,000	2,055	317,000	202,492
2008	10,000	1,480	333,000	189,831
2009	10,000	895	338,177	176,060
2010	10,000	300	335,000	161,705
2011-2015	-	-	1,773,000	574,798
2016-2020	-	-	1,240,000	182,197
2021-2025	-	-	400,000	39,780
Total	<u>\$50,000</u>	<u>\$7,350</u>	<u>\$5,100,177</u>	<u>\$1,744,719</u>



CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

3. NOTES PAYABLE - (Continued)

The resolutions providing for the issuance of revenue notes include the following provisions:

- A. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to separate electric, gas, water, and telecommunication revenue sinking accounts for the purpose of making the note principal and interest payments when due.
- C. The City is to establish separate Electric, Gas, Water and Telecommunication, Principal and Interest Reserve Accounts into which there shall be set apart and paid at the time of delivery of the obligations the sum of \$190,000 for electric, \$50,000 for gas, and \$40,000 for water. Sufficient monthly transfers shall be made to the telecommunication reserve account in an amount equal to twenty five percent of the monthly sinking fund transfers.
- D. Additional monthly transfers of \$1,650 to the Electric Improvement Fund, \$850 to the Gas Improvement Fund, and \$1,000 to the Water Improvement Fund shall be made until the sum of \$150,000, \$50,000, and \$36,000 has been accumulated, respectively. These accounts are restricted for the purpose of paying for necessary repairs, improvements, and extensions to the system.

4. OPERATING LEASE

The city leases a copier system. Rental expense incurred for this lease was \$2,195 for the year ended June 30, 2005. Minimum amounts payable under this operating lease are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2006	\$3,293
2007	3,293
2008	1,098

5. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$33,319, \$32,837, and \$32,888 respectively, equal to the required contributions for each year.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

6. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2005, primarily relating to the Enterprise Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 23,423
Sick leave	171,581
Total	<u>\$195,004</u>

Sick leave is payable when used or upon retirement or death. If paid upon retirement or death, the total accumulated hours are paid at the then effective hourly rate for that employee. This liability has been computed based on rates of pay at June 30, 2005.

7. INTERGOVERNMENTAL AGREEMENTS

The City has entered into an agreement with Northwest Iowa Area Solid Waste Agency, in accordance with Chapter 28E of the Code of Iowa, for disposal of solid waste from within the City. Payments under this agreement were \$16,638 for the year ended June 30, 2005.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and postclosure costs to the agency have been estimated at \$1,919,300 as of June 30, 2005 and the Agency has begun to accumulate resources to fund these costs. As of June 30, 2005 deposits of \$1,128,220 are held for these purposes. No estimate has been made as to the effect of future assessments to the City.

8. EQUITY IN COOPERATIVE

City of Hartley is a member of the Missouri Basin Municipal Electric Cooperative Association. The City's share of equity in this cooperative at June 30, 2005 consists of the following:

Transmission capacity	\$340,906
Members' advances for transmission capacity	194,317
Other members' capital	15,456
Membership	100
	<u>\$550,779</u>

Transmission Capacity - Transmission capacity is stated at cost and consists of contributions made under the Transmission Agreement for the NIPCO transmission system. Transmission capacity is being amortized on a straight-line basis over thirty-five years.

Members' Advances for Transmission Capacity - Members' advances for transmission capacity consist of contributions by the members and net interest earned on investments allocated to the members. These advances from the participating Transmission Members are being held for future transmission capacity contributions by the Association in its capacity as agent for these members.

Other Members' Capital - Other members' capital consists of patronage dividends declared by NIPCO, but unpaid.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

9. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefit	\$ 84,774
	Local Option Sales Tax	10,000
	Enterprise:	
	Electric	18,576
	Gas	9,886
Special Revenue:	Special Revenue:	
Economic Development	Local Option Sales Tax	46,349
Special Revenue:	Special Revenue:	
Owner Occupied Rehab	Tax Increment Financing	15,000
Debt Service	Special Revenue:	
	Local Option Sales Tax	41,651
Water	Special Revenue:	
	Tax Increment Financing	50,000
Sewer	Special Revenue:	
	Tax Increment Financing	<u>125,000</u>
		<u>\$401,236</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

10. RISK MANAGEMENT

City of Hartley is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. PROMISSORY NOTES

On April 6, 1998 City of Hartley received two promissory notes from Hartley Housing Associates, Limited Partnership in the amounts of \$40,000 and \$30,000 with interest at two percent and one percent, respectively. Repayment terms are \$2,049 and \$2,164 annually respectively, beginning May 1, 1999 with final payment coming due on May 1, 2013. However, because of limited "surplus cash" available there has only been one payment made on each of these notes since inception. The note agreement does allow this to occur but does stipulate that any unpaid portion shall accrue interest. These notes are secured by mortgages on residential lots owned by the borrower. The funds are to be used to develop affordable rental housing.

CITY OF HARTLEY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

12. CONSTRUCTION CONTRACTS AND COMMITMENTS

The City has entered into the following contracts which were not completed as of June 30, 2005.

<u>Project</u>	<u>Total Contract Amount</u>	<u>Amount Paid As of 6-30-05</u>	<u>Remaining Commitment As of 6-30-05</u>
Water Treatment Plant	\$ 77,700	\$ 46,550	\$ 31,150
Wastewater Treatment Facility	2,280,876	1,741,155	539,721

The remaining commitments on these projects will be financed with funds on hand and the State Revolving Loan Fund.

13. ASSISTED LIVING FACILITY REVENUE BONDS

The City has approved issuing up to \$1,400,000 of assisted living facility revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$633,596 is outstanding at June 30, 2005. The bonds and related interest are payable solely from the revenues of Community Memorial Health Center Association and do not constitute liabilities of the City.

## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARTLEY  
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL  
FUNDS AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
Receipts:						
Property tax	\$ 258,995	\$ -	\$ 258,995	\$ 258,859	\$ 258,859	\$ 136
Tax increment financing collections	225,368	-	225,368	190,000	190,000	35,368
Other city tax	104,751	-	104,751	98,000	98,000	6,751
License and permits	1,722	-	1,722	1,975	2,006	(284)
Use of money and property	70,569	24,073	94,642	59,250	94,380	262
Intergovernmental	222,787	398,390	621,177	164,594	782,124	(160,947)
Charges for service	59,127	2,600,360	2,659,487	2,614,632	2,453,100	206,387
Special assessments	14,771	-	14,771	18,500	20,000	(5,229)
Miscellaneous	328,814	149,760	478,574	35,244	332,497	146,077
Total receipts	<u>1,286,904</u>	<u>3,172,583</u>	<u>4,459,487</u>	<u>3,441,054</u>	<u>4,230,966</u>	<u>228,521</u>
Disbursements:						
Public safety	239,950	-	239,950	224,472	249,745	9,795
Public works	128,081	-	128,081	217,376	166,233	38,152
Culture and recreation	149,383	-	149,383	171,370	173,884	24,501
Community and economic development	64,821	-	64,821	55,538	140,538	75,717
General government	73,675	-	73,675	99,275	93,985	20,310
Debt service	59,300	-	59,300	59,050	59,300	-
Business type activities	-	4,634,367	4,634,367	3,708,790	5,249,565	615,198
Total disbursements	<u>715,210</u>	<u>4,634,367</u>	<u>5,349,577</u>	<u>4,535,871</u>	<u>6,133,250</u>	<u>783,673</u>
Excess (deficiency) of receipts over disbursements	571,694	(1,461,784)	(890,090)	(1,094,817)	(1,902,284)	1,012,194
Other financing sources (uses)	<u>(141,903)</u>	<u>1,494,395</u>	<u>1,352,492</u>	<u>855,000</u>	<u>1,732,000</u>	<u>(379,508)</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	429,791	32,611	462,402	(239,817)	(170,284)	632,686
Balances, beginning of year	<u>653,535</u>	<u>2,491,052</u>	<u>3,144,587</u>	<u>2,636,703</u>	<u>2,613,310</u>	<u>531,277</u>
Balances, end of year	<u>\$ 1,083,326</u>	<u>\$2,523,663</u>	<u>\$ 3,606,989</u>	<u>\$ 2,396,886</u>	<u>\$2,443,026</u>	<u>\$ 1,163,963</u>

See accompanying independent auditor's report.

CITY OF HARTLEY  
NOTES TO REQUIRED SUPPLEMENTARY  
INFORMATION - BUDGETARY REPORTING  
JUNE 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities, and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,597,379. The budget amendment is reflected in the final budgeted amounts.

## OTHER SUPPLEMENTARY INFORMATION



CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Schedule 1

	Special Revenue					Debt Service		Permanent	
	Road	Employee	Local	Economic	Owner	Library	Central	Cemetery	
	Use	Benefits	Option	Development	Occupied	Expansion	Avenue	Perpetual	Total
			Sales Tax		Rehab		Improvement	Care	
Receipts:									
Property tax	\$ -	\$ 84,790	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 84,790
Other city tax	-	-	104,751	-	-	-	-	-	104,751
Intergovernmental	144,092	-	-	-	33,675	-	-	-	177,767
Special assessments	-	-	-	-	-	-	11,083	-	11,083
Miscellaneous	-	-	-	-	-	-	-	720	720
Total receipts	<u>144,092</u>	<u>84,790</u>	<u>104,751</u>	<u>-</u>	<u>33,675</u>	<u>-</u>	<u>11,083</u>	<u>720</u>	<u>379,111</u>
Disbursements:									
Operating:									
Public works	74,775	-	-	-	-	-	-	-	74,775
Community and economic development	-	-	-	20,000	44,283	-	-	-	64,283
Debt service	-	-	-	-	-	45,550	13,750	-	59,300
Total disbursements	<u>74,775</u>	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>44,283</u>	<u>45,550</u>	<u>13,750</u>	<u>-</u>	<u>198,358</u>
Excess (deficiency) of revenues over expenditures	<u>69,317</u>	<u>84,790</u>	<u>104,751</u>	<u>(20,000)</u>	<u>(10,608)</u>	<u>(45,550)</u>	<u>(2,667)</u>	<u>720</u>	<u>180,753</u>
Other financing sources (uses):									
Operating transfers in	-	-	-	46,349	15,000	41,651	-	-	103,000
Operating transfers out	-	(84,774)	(98,000)	-	-	-	-	-	(182,774)
Total other financing sources (uses)	<u>-</u>	<u>(84,774)</u>	<u>(98,000)</u>	<u>46,349</u>	<u>15,000</u>	<u>41,651</u>	<u>-</u>	<u>-</u>	<u>(79,774)</u>
Net change in cash balances	69,317	16	6,751	26,349	4,392	(3,899)	(2,667)	720	100,979
Cash balances beginning of year	<u>93,408</u>	<u>7,994</u>	<u>13,524</u>	<u>4,203</u>	<u>-</u>	<u>37,964</u>	<u>32,549</u>	<u>86,672</u>	<u>276,314</u>
Cash balances end of year	<u>\$ 162,725</u>	<u>\$ 8,010</u>	<u>\$ 20,275</u>	<u>\$ 30,552</u>	<u>\$ 4,392</u>	<u>\$ 34,065</u>	<u>\$ 29,882</u>	<u>\$ 87,392</u>	<u>\$ 377,293</u>
Cash Basis Fund Balances									
Unreserved:									
Special Revenue	\$ 162,725	\$ 8,010	\$ 20,275	\$ 30,552	\$ 4,392	\$ -	\$ -	\$ -	\$ 225,954
Debt service	-	-	-	-	-	34,065	29,882	-	63,947
Permanent	-	-	-	-	-	-	-	87,392	87,392
Total cash basis fund balances	<u>\$ 162,725</u>	<u>\$ 8,010</u>	<u>\$ 20,275</u>	<u>\$ 30,552</u>	<u>\$ 4,392</u>	<u>\$ 34,065</u>	<u>\$ 29,882</u>	<u>\$ 87,392</u>	<u>\$ 377,293</u>

See accompanying independent auditor's report.

CITY OF HARTLEY  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES  
NONMAJOR PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

Schedule 2

	<u>Solid Waste</u>	<u>Consumer Deposit</u>	<u>Cable</u>	<u>Total</u>
Operating receipts:				
Use of money and property	\$ 2,369	\$ -	\$ -	\$ 2,369
Charges for service	108,468	-	23,003	131,471
Miscellaneous	<u>1,069</u>	<u>23,040</u>	<u>119,577</u>	<u>143,686</u>
Total operating receipts	111,906	23,040	142,580	277,526
Operating disbursements:				
Business type activities	<u>103,365</u>	<u>13,730</u>	<u>31,723</u>	<u>148,818</u>
Excess of operating receipts over operating disbursements	<u>8,541</u>	<u>9,310</u>	<u>110,857</u>	<u>128,708</u>
Non-operating receipts (disbursements)				
Interest on investments	207	-	200	407
Debt service	<u>-</u>	<u>-</u>	<u>(119,675)</u>	<u>(119,675)</u>
Total non-operating receipts (disbursements)	<u>207</u>	<u>-</u>	<u>(119,475)</u>	<u>(119,268)</u>
Net change in cash balances	8,748	9,310	(8,618)	9,440
Cash balances beginning of year	<u>16,091</u>	<u>27,238</u>	<u>245,977</u>	<u>289,306</u>
Cash balances end of year	<u>\$ 24,839</u>	<u>\$ 36,548</u>	<u>\$ 237,359</u>	<u>\$ 298,746</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ -	\$ -	\$ 139,732	\$ 139,732
Unreserved	<u>24,839</u>	<u>36,548</u>	<u>97,627</u>	<u>159,014</u>
Total cash basis fund balances	<u>\$ 24,839</u>	<u>\$ 36,548</u>	<u>\$ 237,359</u>	<u>\$ 298,746</u>

See accompanying independent auditor's report.

CITY OF HARTLEY  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2005

Schedule 3

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End Of Year	Interest Paid	Interest Due and Unpaid
Revenue Notes:									
Gas	September 1, 1994	6.05 - 6.15%	\$ 550,000	\$ 120,000	\$ -	\$ 60,000	\$ 60,000	\$ 7,320	\$ -
Water	November 1, 2003	2.20 - 5.20%	400,000	380,000	-	20,000	360,000	16,075	-
Sewer	July 20, 2004	3.00%	1,300,000	-	1,300,000	-	1,300,000	10,462	-
Sewer	December 20, 2004	3.00%	<u>432,000</u>	<u>-</u>	<u>65,177</u>	<u>-</u>	<u>65,177</u>	<u>601</u>	<u>-</u>
			<u>\$ 2,682,000</u>	<u>\$ 500,000</u>	<u>\$ 1,365,177</u>	<u>\$ 80,000</u>	<u>\$ 1,785,177</u>	<u>\$ 34,458</u>	<u>\$ -</u>
Revenue Capital Loan Notes:									
Electric	February 1, 2001	4.80 - 5.55%	\$ 1,900,000	\$ 1,845,000	\$ -	\$ 100,000	\$ 1,745,000	\$ 94,398	\$ -
Telecommunication	March 1, 2004	1.85 - 4.90%	<u>1,300,000</u>	<u>1,300,000</u>	<u>-</u>	<u>70,000</u>	<u>1,230,000</u>	<u>49,675</u>	<u>-</u>
			<u>\$ 3,200,000</u>	<u>\$ 3,145,000</u>	<u>\$ -</u>	<u>\$ 170,000</u>	<u>\$ 2,975,000</u>	<u>\$ 144,073</u>	<u>\$ -</u>
General Obligation Notes:									
Library	June 1, 2001	4.30 - 5.10%	<u>\$ 400,000</u>	<u>\$ 320,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 290,000</u>	<u>\$ 15,150</u>	<u>\$ -</u>
Special Assessment:									
Street Improvement	September 1, 2000	5.50 - 6.00%	<u>\$ 92,000</u>	<u>\$ 60,000</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 50,000</u>	<u>\$ 3,450</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF HARTLEY  
NOTE MATURITIES  
JUNE 30, 2005

Schedule 4

Year Ending June 30,	Revenue Notes								Special Assessment		Capital Loan Notes				General Obligation		
	Gas Notes		Water Notes		Sewer Notes		Sewer Notes		Street Improvement		Electric Notes		Telecommunication Notes		Library Notes		
	Issued September 1, 1994		Issued November 1, 2003		Issued July 20, 2004		Issued December 2, 2004		Issued September 1, 2000		Issued February 1, 2001		Issued March 1, 2004		Issued June 1, 2001		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
2006	6.15%	\$ 60,000	2.65%	\$ 20,000	3.00%	\$ 48,000	3.00%	\$ 16,000	5.60%	\$ 10,000	4.90%	\$ 110,000	2.30%	\$ 70,000	4.40%	\$ 30,000	\$ 364,000
2007	-	-	3.05	25,000	3.00	50,000	3.00	17,000	5.70	10,000	5.00	115,000	2.70	70,000	4.50	30,000	317,000
2008	-	-	3.45	25,000	3.00	51,000	3.00	17,000	5.80	10,000	5.05	120,000	3.05	75,000	4.60	35,000	333,000
2009	-	-	3.70	25,000	3.00	53,000	3.00	15,177	5.90	10,000	5.10	125,000	3.25	75,000	4.70	35,000	338,177
2010	-	-	4.00	25,000	3.00	55,000	-	-	6.00	10,000	5.15	130,000	3.50	80,000	4.80	35,000	335,000
2011	-	-	4.25	25,000	3.00	56,000	-	-	-	-	5.20	140,000	3.70	80,000	4.90	40,000	341,000
2012	-	-	4.45	25,000	3.00	58,000	-	-	-	-	5.25	145,000	3.85	85,000	5.00	40,000	353,000
2013	-	-	4.60	30,000	3.00	60,000	-	-	-	-	5.30	155,000	4.00	85,000	5.10	45,000	375,000
2014	-	-	4.75	30,000	3.00	61,000	-	-	-	-	5.40	165,000	4.15	90,000	-	-	346,000
2015	-	-	4.90	30,000	3.00	63,000	-	-	-	-	5.45	170,000	4.30	95,000	-	-	358,000
2016	-	-	5.00	30,000	3.00	65,000	-	-	-	-	5.50	180,000	4.45	100,000	-	-	375,000
2017	-	-	5.10	35,000	3.00	67,000	-	-	-	-	5.55	190,000	4.60	105,000	-	-	397,000
2018	-	-	5.20	35,000	3.00	69,000	-	-	-	-	-	-	4.75	105,000	-	-	209,000
2019	-	-	-	-	3.00	71,000	-	-	-	-	-	-	4.90	115,000	-	-	186,000
2020	-	-	-	-	3.00	73,000	-	-	-	-	-	-	-	-	-	-	73,000
2021	-	-	-	-	3.00	75,000	-	-	-	-	-	-	-	-	-	-	75,000
2022	-	-	-	-	3.00	78,000	-	-	-	-	-	-	-	-	-	-	78,000
2023	-	-	-	-	3.00	80,000	-	-	-	-	-	-	-	-	-	-	80,000
2024	-	-	-	-	3.00	82,000	-	-	-	-	-	-	-	-	-	-	82,000
2025	-	-	-	-	3.00	85,000	-	-	-	-	-	-	-	-	-	-	85,000
		<u>\$ 60,000</u>		<u>\$ 360,000</u>		<u>\$ 1,300,000</u>		<u>\$ 65,177</u>		<u>\$ 50,000</u>		<u>\$ 1,745,000</u>		<u>\$ 1,230,000</u>		<u>\$ 290,000</u>	<u>\$ 5,100,177</u>

See accompanying independent auditor's report.

CITY OF HARTLEY  
SCHEDULE OF RECEIPTS BY SOURCE AND  
DISBURSEMENTS BY FUNCTION  
ALL GOVERNMENTAL FUNDS  
FOR THE LAST THREE YEARS

Schedule 5

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:			
Property tax	\$ 258,995	\$ 268,036	\$ 259,089
Tax increment financing collections	225,368	195,663	190,439
Other city tax	104,751	100,648	102,318
License and permits	1,722	2,276	2,078
Use of money and property	70,569	51,061	25,239
Intergovernmental	222,787	193,663	183,300
Charges for service	59,127	58,675	85,040
Special assessments	14,771	26,674	16,620
Miscellaneous	328,814	42,931	28,748
Total receipts	<u>\$ 1,286,904</u>	<u>\$ 939,627</u>	<u>\$ 892,871</u>
Disbursements:			
Operating:			
Public safety	\$ 239,950	\$ 215,464	\$ 345,606
Public works	128,081	337,381	164,224
Culture and recreation	149,383	163,893	171,509
Community and economic development	64,821	107,193	2,791
General government	73,675	96,598	89,965
Debt service	59,300	61,000	67,503
Total disbursements	<u>\$ 715,210</u>	<u>\$ 981,529</u>	<u>\$ 841,598</u>

See accompanying independent auditor's report.

CITY OF HARTLEY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2005

Schedule 6

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Agency Pass-through Number</u>	<u>Program Expenditures</u>
Indirect:			
Iowa Department of Natural Resources:			
Clean Water State Revolving Loan Fund	66.458		\$ 10,833
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	03-WS-036-98	469,968
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	04-HSG-022	41,283
			511,251
Total			\$ 522,084

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant of City of Hartley and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.  
JEFFORY B. STARK, C.P.A.  
KEITH C. GERMANN, C.P.A.  
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Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council  
Hartley, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Hartley, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated August 31, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Hartley's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Hartley's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hartley's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we

noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Hartley, and other parties to whom City of Hartley may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Hartley during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Hungelman, Pietryer & Co.*

August 31, 2005



HUNZELMAN, PUTZIER & CO., PLC  
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Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council  
Hartley, Iowa

Compliance

We have audited the compliance of City of Hartley, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2005. City of Hartley's major federal program is identified in Part I of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its major federal program is the responsibility of City of Hartley's management. Our responsibility is to express an opinion on City of Hartley's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Hartley's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Hartley's compliance with those requirements.

In our opinion City of Hartley complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The management of City of Hartley is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered City of Hartley's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Hartley, and other parties to whom City of Hartley may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Hungelman, Putzier & Co.*

August 31, 2005

CITY OF HARTLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No reportable conditions in internal control over the major program were identified.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section. 510(a).
- (g) The major program was CFDA Number 14.228 - Community Development Block Grants/State's Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Hartley did not qualify as a low-risk auditee.

CITY OF HARTLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005

Part II: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS

II-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by either of two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - It is our practice to cross train each employee on all aspects of our office. Each employee is assigned specific responsibilities. The cross training is used primarily to allow for vacations and unexpected illnesses. We have reviewed our operating procedures and believe we have obtained the maximum internal control possible under the circumstances.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-05 Official Depositories - A resolution naming official depositories has been adopted by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget - Disbursements during the year exceeded the amounts budgeted in the Business Type Activities function prior to the budget amendment. Chapter 384.20 of the Code of Iowa states in part the public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We try to control costs and time by publishing an amendment only once a year. The council approves all expenditures including those over budget at their regular scheduled monthly meetings. Our budgets are not usually so unpredictable but the continuing construction projects such as the water, wastewater and Owner Occupied Rehabilitation projects were very difficult to forecast.

CITY OF HARTLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005

Part IV: Other Findings Related to Statutory Reporting: (Continued)

IV-B-05 Certified Budget - (Continued)

Conclusion - Response accepted.

IV-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-05 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-05 Business Transactions - We noted no business transactions between the City and City officials or employees.

IV-F-05 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-05 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-05 Deposits and Investments - No instances of non-compliance with the deposit and investment policy were noted.

IV-I-05 Revenue Notes - The City has established the sinking and reserve accounts required by the electric, gas, water, and telecommunication revenue note resolutions. However, the electric sinking fund was underfunded by \$3,961 as of June 30, 2005.

Recommendation - The City should make the required transfers into this fund as required by the revenue note resolution.

Response - The necessary transfers have been made to correct that deficiency.

Conclusion - Response accepted.

IV-J-05 Excess Balances - The following funds have balances at June 30, 2005 which are in excess of one year's expenditures:

Special Revenue	- Road Use
	- Economic Development
	- Library Expendable Trust
Debt Service	- Central Avenue Improvement

CITY OF HARTLEY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005

Part IV: Other Findings Related to Statutory Reporting: (Continued)

IV-J-05    Excess Balances - (Continued)

Recommendation - While it appears that these funds may have excessive balances, this can usually be justified if the City has a specific plan for future expenditures. The City should consider the necessity of maintaining these substantial balances, and where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - Road Use Tax Fund - We have seen the cost of street improvements increase substantially. This alone has forced us to accumulate the necessary revenue to complete our street improvements.

Economic Development Fund - This fund is being accumulated for special projects such as the Community Design Project and will be decreased once those projects are realized.

Library Expendable Trust - This amount was received from an estate and it will be disbursed according to the library's needs as determined by their board.

Central Avenue Improvement - This amount is accumulated by the county treasurer and disbursed to us according to the special assessment curb and gutter street improvement debt schedule. They are receipted to this fund as required and disbursed as the principal and interest payments are due.

Conclusion - Response accepted.